

**BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON DC 20268-0001**

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**POSTAL RATE AND FEE CHANGES, 2000**

**Docket No. R2000-1**

**INITIAL BRIEF  
OF  
E-STAMP CORPORATION**

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## **STATEMENT OF THE CASE AND STATEMENT OF POSITION**

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In this proceeding E-Stamp proposes a discount for First-Class letters produced with Open System PC postage. Currently, that would include the E-Stamp and the Stamps.com products. Several more vendors are in the final stages of approval and implementation. PC postage is not a fad nor a gimmick. It is a revolutionary change in the way mailers, particularly small volume customers, householders and small businesses, access postage and prepare their mailing pieces. It will become a major category of mail in the not too distant future.

As we believe the record in this case amply demonstrates, there are major savings that already accrue and more that will accrue to the Postal Service with the increased usage of PC postage products. This new technology will save the Postal Service a great deal of cost and generate additional use of other postal products, all at a time when the Postal Service, in order to ensure its future survival, needs to reduce its costs and to find new businesses and new customers. As such, PC postage deserves serious attention by the Postal Service and by the Postal Rate Commission. The Postal Service's current attitude toward PC postage can, at best, be described as one of benign neglect. Not a single penny has been spent by the Postal Service to promote this new product; even without the revenue loss that would be occasioned by a discount, the Postal Service has still shown little inclination to encourage customers to use these new products. While the Postal Service goes out of its way to spend uncounted sums on its own new and unproven products, such as e-Bill-Pay and

Mailing-On-Line, PC postage, developed entirely at the expense of private entrepreneurs, languishes as an unwanted orphan, at least based on Postal Service behavior so far. These products have all of the efficiencies of automation-compatible mail and deserve a discount. PC postage does need the active cooperation of an obdurate postal bureaucracy, but a discount is an indispensable part of the growth and use of this promising technology.

**I. OPEN SYSTEM PC POSTAGE IS A TECHNOLOGY THAT PRODUCES AUTOMATION COMPATIBLE MAIL WHICH, BY EVERY MEASURE, IS AS EFFICIENT TO PROCESS AND DELIVER AS ANY TYPE OF MAIL CURRENTLY RECEIVING AN AUTOMATION DISCOUNT.**

**A. Any Postal Customer With A Computer And Printer Can Obtain PC Postage And Print The Postage And A Totally Cleansed Address Using Their Own Personal Computers.**

E-Stamp and Stamps.com commenced commercial operation of this new product over a year ago. Tr. 29/13643. While Neo-Post and Pitney-Bowes have also received approval, they have not launched yet. PC postage produces an indicia that consists of a two dimensional bar code called an Information Based Indicia (IBI), which in turn conveys mail processing and security related data in nineteen separate fields. Tr. 23/10312-13. This IBI indicia holds the potential to supply far more information than is currently required. PC postage was designed to be and is a more cost efficient and secure postage evidencing methodology, particularly in the elimination of the fraud that has prevailed under traditional meter technology. (29/13643-45)

The so-called "Open System" PC postage product for which E-Stamp is proposing a discount requires the user to perform address matching verification and

address cleansing, produce a printed address that contains the correct Zip +4 code, an eleven digit POSTNET bar code, and a FIM code.

Each PC postage vendor must go through very demanding tests before being approved by the Postal Service to offer their service commercially.

The incidents of Open System PC postage products which are significant in terms of cost efficiencies and security for the Postal Service are the following:

1. The printing of the postage and address must meet strict quality requirements. Tr. 23/10306-07.
2. Each PC postage printed address must meet or exceed the criteria for automation compatibility; through use of the personal computer the address is verified and corrected against a Coding Accuracy Support System (CASS) certified address database. Because of this address cleansing process, not even the largest and most sophisticated mailers produce mailpieces with address quality that exceeds that required of PC postage. However, unlike these large volume automation compatible mailers, who get substantial discounts, none is available for the PC postage mailer. And this address cleansing feature is both costly and burdensome to the customer. In fact it stands as a major barrier to customer acceptance. Tr. 29/13646, Tr. 23/10317. If there is an address match, but changes are still required to meet USPS addressing standards, the software automatically modifies the address. If the customer does not accept the address as modified the mailpiece will not be printed out. Often there are many potential matches and the customer has to choose the best match and accept that or the PC postage will not be printed. Tr. 29/13647.

**B. PC Postage Substantially Improves The Address Hygiene Of The User; Substantially Reduces The Postal Service's Cost Of Selling Stamps Through Retail Outlets; And Leads To Increased Use Of Express And Priority Mail By Those Customers.**

Stamps.com witness Lawton conducted a survey which showed that two-thirds of Stamps.com customers previously had never or infrequently applied a zip +4 code prior to using PC postage. And even when it was used they often obtained the code from an old mailing list or envelope, sources that were not current or inaccurate.

Ms. Lawton's survey also demonstrated that use of PC postage greatly reduced customer visits to Postal Service retail windows to buy stamps. Eighty-four percent reported reduction in the number of trips, with an average of 4.5 fewer trips per month, accumulating to roughly over 1 million fewer visits to post offices each month for Stamps.com customers alone. Tr. 23/10369-70, 10376.

A significant feature of Ms. Lawton's survey is that it demonstrated that Stamps.com customers were making increasing usage of other postal products because of their use of PC postage, particularly Express and Priority Mail. Tr. 23/10370-1. PC postage will increasingly become the method for applying postage and addressing for individuals and small businesses. All that is required is that they have a PC and access to the Internet. As of 1998, 6.3 million small businesses, or 85%, had access to a PC and it is estimated that, by the year 2000, 7.5 million, or 91.7%, will. And witness Heselton has noted that about one-half of all individuals have access to a PC and the Internet Tr. 23/10488. Thus, increasingly, PC postage products will become the means by which individual householders and small businesses can share in the benefits of automation of mail processing.

## **II. E-STAMP'S PROPOSED DISCOUNT OF 4 CENTS PER PIECE IS COST JUSTIFIED**

In this proceeding E-Stamp proposes a 4 cents per piece first class letter discount for Open System PC postage products. Tr. 29/13650-51. In addition to other costs avoided by the Postal Service, mailpieces produced by PC postage avoid substantial mail processing and delivery costs.

E-Stamp witness Prescott and Stamps.com witness Heselton, although using different methodologies to calculate the cost avoidance and savings to the Postal Service from PC postage products, have reached essentially the same conclusion as to the range of savings enjoyed by the Postal Service directly from the efficiencies in mail processing and delivery. Stamps.com witness Heselton in addition outlines a number of other cost savings.

### **A. E-Stamp Witness Prescott, Using Two Different Costing Methodologies, Has Calculated A Cost Avoidance From Postage That Well Exceeds The Proposed 4 Cent Discount.**

#### **1. Prescott's First Methodology Shows PC Postage Cost Avoidance Of More Than 4 Cents.**

Because E-Stamp's IBI mail will be single piece and therefore not sorted, Prescott determined that he must remove the amount of cost savings that are related to presortation. By utilizing data in USPS' LR-I-81, he was able to calculate the cost differences between nonautomated presort bulk metered mail (BMM) and automated presort bulk metered mail, finding that the latter cost 6.28 cents per piece less for mail processing. Mr. Prescott calculated the value of presorting by measuring the cost difference between single piece bulk metered mail and presorted nonautomation bulk



metered mail. Subtracting the 10.34 cents per piece cost for presort nonautomation from the 10.47 cents for bulk metered mail, he derived a difference of .13 cents per piece which he attributed to the value of presorting. Prescott then subtracted the .13 cents value of presortation from the difference between nonautomation presort mail and automation presort mail and derived a difference of 6.15 cents per piece, the cost avoidance that he found due to the fact that the mail was automation compatible. These calculations are reflected in Prescott's Table 1. Tr. 29/13762.<sup>1</sup>

The Postal Service has revised LR-I-81 by submitting Library Reference LR-I-481, updating unit cost to reflect 1999 data. The 1999 data showed reduced cost for automated and non-automated presort mail and, consequently, a reduced cost savings for automation. Reproduced below is Mr. Prescott's Table 1 with the updated figures in LR-I-481 substituted for the costs in LR-I-81.

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<sup>1</sup> Had witness Prescott used single piece entered bulk metered mail costs as the category he compared to the costs of presorted nonautomation mail, he would have derived a cost difference of .43 cents per piece for the value of presorting, and deducting that .43 cents from the 6.28 cents per piece cost difference between nonautomation presort and automation presort would have produced a cost avoidance due to automation of 5.72 cents, rather than 6.15 cents per piece. Tr. 45/19739-40.

Table 1  
Summary of Automation Cost Savings for Letters Based on LR-I-481

<u>Item</u> (1)	<u>Source</u> (2)	Cost Per Piece (cents) (3)
<b><u>Presorted BMM</u></b>		
1. Non-automated	LR-I-481	9.31
2. Automated	LR-I-481	<u>4.00</u>
3. Cost Savings for Presorted Automation BMM	Line 1 - Line 2	5.31
<b><u>Cost Savings For Presortation</u></b>		
4. Single Piece BMM	LR-I-481	9.76
5. Presorted Non-Automation BMM	LR-I-481	<u>9.31</u>
6. Cost Difference Related to Presortation	Line 4 - Line 5	0.45
<b><u>Cost Savings For Single Piece Automation</u></b>		
7. Cost Savings for Automation	Line 3 - Line 6	4.86

It will be seen then that the cost savings related to automation compatible BMM equals 5.31 cents per piece; that the cost differential related to the piece sortation element of BMM equals 0.13 cents per piece, but the net savings due to automation for first-class single piece has been reduced from 6.15 cents per piece to 4.86 cents per piece. This cost savings is still comfortably in excess of the requested 4 cents discount. [Prescott's original Table 1 appears at Tr. 29/13762].

## **2. Prescott's Second Methodology Also Shows PC Postage Cost Avoidance Of More Than 4 Cents.**

As an alternative methodology, Mr. Prescott uses USPS witness Miller's Table 1 where Mr. Miller identifies work sharing related cost differentials between non-automation metered letters and automation BMM letters. Since Mr. Miller found that non-automation pre-sort letters cost 13.718 cents per piece and automation basic pre-sort letters cost 8.603 cents per piece, there was a cost savings due to automation of pre-sort letters of 5.115 cents per piece.<sup>2</sup> Tr. 29/13762-763. Again, witness Prescott attempted to adjust this cost difference to reflect the value of presorting, since both of these compared categories were presorted, and he again utilizes witness Miller's data to determine that value. Appendix 1 of witness Miller's testimony provides a bulk metered mail (BMM) letter cost of 13.559 cents per piece compared to a nonautomation presort letter cost for mail processing and delivery of 13.468 cents per piece, or a .091 cent difference. Witness Prescott ascribed that difference in these two categories of mail to the value of presort because that was the single most distinguishing difference between nonautomation bulk metered mail letters and nonautomation presort letters Tr. 29/13762-3. Mr. Miller failed to update his Appendix 1 to FY 1999 so it is not possible to update Mr. Prescott's Table 2, which is based on Mr. Miller's Appendix 1.

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<sup>2</sup> Since PC postage letters would be single entered and not entered in bulk they would cost .3 cents more. Using that comparison, then the value of presorting would be .391 cents per piece which, if that were subtracted from Miller's cost differences for automation and nonautomation presort letters of 5.115 cents, would produce a cost avoidance due to automation compatibility of 4.724 cents per piece.

**B. Stamps.com Cost Avoidance Methodology Also Demonstrates There Is More Than 4 Cents Per Piece Savings To USPS.**

Stamps.com witness Heselton also develops a cost avoidance for PC postage products, utilizing a different methodology, by comparing PC postage products to Qualified Business Reply Mail (QBRM). They both contain accurate addresses, Zip+4 codes, eleven digit POSTNET bar codes, and FIM codes. Estimates of QBRM avoided costs were 3.38 cents, or 2.99 cents using PRC methodology. Tr. 23/10461.

Mr. Heselton also calculates and claim savings for reductions in the costs of returning undeliverable mail to the sender. When that cost avoidance is added to the cost avoidances enjoyed by QBRM, using the PRC methodology, the cost savings are in excess of the 4 cents discount claimed. Tr. 23/10471.

**C. A Discount For PC Postage Products Would Have Either A Revenue Neutral Or A Beneficial Revenue Effect For The Postal Service.**

The Postal Service testified in this proceeding that it had not projected any cost avoidance from the inclusion of PC postage First-Class letter mail. Tr. 12/4739.

Consequently the USPS estimates overstate the costs of each piece of PC postage FC letter mail. To the extent that First-Class PC postage letters in the test year save more than 4 cents per piece of the assumed costs of First-Class letters, a discount of 4 cents per piece for those letters would produce a net revenue increase for the Postal Service.

**III. THE USPS OPPOSITION TO PC POSTAGE PRODUCT DISCOUNTS IS NOT WELL FOUNDED.**

The Postal Service filed the rebuttal testimony of three witnesses in opposition to the E-Stamp and Stamps.com proposals for a discount. Essentially these three

witnesses stated E-Stamp failed to correctly measure the cost avoidance of PC postage; that the surveys presented by E-Stamp and Stamps.com were too flawed to be reliable for measurements of the expected usage and customer behavior; and that implementation of a discount would be a complicated and lengthy process.

It was not to be expected that the Postal Service would endorse a rate proposal that it itself had not advanced (in almost thirty years it never has); but the vehemence of its opposition to a discount for a product that it itself launched, and initially encouraged vendors to embrace, is not only disappointing but more than a little puzzling. Nevertheless, as the following arguments will demonstrate, the basis for the Postal Service's opposition is largely groundless and is a series of gross exaggerations: exaggerations about the permanence of the way mail is processed; the degree of imprecision about the cost avoidance estimates; the seriousness of the survey flaws; and the difficulties of implementation.

**IV. USPS Witness Miller Has Failed To Rebut The Obvious Fact That PC Postage Products, As Compared To Both Handwritten Letters And Bulk Metered Mail Letters, Do Provide Savings To The Postal Service.**

Readily rebutting witness Miller's contention that PC postage provides little or no savings was the Postal Service's own official document: Postal Bulletin PB 22004, dated August 12, 1999. That Postal Bulletin issue contains the following comments about PC postage mail: "PC postage products provide time savings, increased efficiency, reduced costs, and enhance security for both customers and the Postal Service." (Page 9) When asked to reconcile his testimony with the Postal Bulletin assertion of cost savings, the witness was unable to do that. Tr. 45/19714-17.

Mr. Miller's own testimony describes a mail processing difference between nonautomation presort mail and basic automation of 5.183 cents per piece. Tr. 45/19713. But Mr. Miller says one cannot compare these two for purposes of determining savings from automation because he said that the mail characteristics of the two were different, that only 75% of nonautomation presort letters were machinable compared to the basic automation category which, by definition has to be machinable. Tr. 45/19724-25. This 75% versus 100% the witness called: "vastly different," not the first time Mr. Miller engaged in hyperbole in his rebuttal. Tr. 45/19725. Mr. Miller goes on to say that there is over a 5.5 cents difference between a manual presort model and an automation basic model, suggesting that that is a reason that the two cannot be compared. *Id.* That is precisely what automation is all about, the fact that the automation category has to have machinable pieces in order to be automation compatible; thus, it is a perfect proxy to measure the value of automation compatibility. Despite claiming that there was a "vast" difference between nonautomation presort and basic presort, Mr. Miller admitted he did not know whether the various mail characteristic differences between the two would account for a little or a lot of the cost difference; rather he just did not know. Tr. 45/19726-7.

**1. Mr. Miller's Rejection Of E-Stamp Witness Prescott's First Methodology Is Unfounded.**

Mr. Miller criticizes Mr. Prescott's calculation of a cost difference between nonautomation presort letters and automation presort letters, costs that were derived from LR-I-81. Mr. Miller criticizes the comparison of these two categories because, whereas nonautomation presort letters is an actual CRA category, presort automated

letters are the aggregate of basic, three digit, and five digit presort letters. And he further criticizes the comparison because nonautomation presort letters are presorted to three and five digits only 70% of the time, while the combined category of automation presort letters has three to five digit sort 86% of the time. Mr. Miller describes this difference between 70% and 86% as “vastly” different. Tr. 45/19761-2. Again an absurdly hyperbolic characterization of what is a relatively small difference in degree of presortation to three and five digit level. And despite calling it a “vast” difference, the witness had to concede that he was unable to quantify the cost effects of that difference and, moreover, despite his calling it “vast,” the cost difference could be big or slight. Tr. 45/19729-30.

Mr. Miller also criticized Prescott’s comparison of these two categories because the nonautomation presort category can weigh up to 13 ounces, whereas automation presort is limited to 3.3 ounces. Yet again, Mr. Miller concedes that he does not know how consequential that difference may or may not have been in terms of its effect on cost. *Id.*

After determining the cost differences between nonautomated and automated presort mail (6.28 cents per piece), Mr. Prescott then estimated the value of presorting by utilizing data in LR-I-81; he found a mail processing cost difference between single piece BMM and presorted nonautomated BMM of .13 cents per piece. Mr. Prescott then subtracted that .13 cents from the 6.28 cents cost difference he had found between nonautomated presort and automated presort of 6.28 cents, finding a cost avoidance due to automation compatibility of 6.15 cents per piece.

Mr. Miller does not explain his objection to Mr. Prescott's methodology for determining the value of presorting, but rather focuses his criticism, as we have previously outlined, on the fact that the nonautomation presort category has 25% of the letters which must be handled manually, whereas the automation presort category has a 98% machinable rate. Tr. 45/19732. While undoubtedly the higher manual rate in the nonautomation category accounts for some of the cost difference between the two categories, that is nevertheless an aspect of that particular CRA category, that is, the fact that it is not automation compatible, whereas the automation presort category is. Those manual mail characteristics of 25% of that category are specific to the condition of not being automation compatible, a condition which would not exist if they were automation compatible. Consequently, it seems perfectly legitimate to ascribe all of this cost difference, except presorting, to the fact that one category is automation compatible and the other is not and therefore automation compatibility is what is producing the cost savings. In the final analysis what it comes down to is that Mr. Miller simply does not know what the cost effect would be due to the different rates of machinability for the two categories compared by witness Prescott. Tr. 45/19746.

**2. Mr. Miller Fails To Discredit Mr. Prescott's Second P.C. Postage Cost Avoidance Methodology.**

To recapitulate, Mr. Prescott also used an alternative methodology to calculate the value of automation compatibility for PC products utilizing cost information from Mr. Miller's direct testimony. Mr. Prescott calculated the difference between the mail processing and delivery unit cost differences between nonautomation presort letters and



automation basic presort letters. One difference in this methodology is that it also includes the delivery unit cost differences.

Mr. Miller dismisses this alternative methodology simply by saying: "For the reasons discussed above, the approach to calculate the second savings estimate is just as flawed as the approach used to calculate the first." Tr. 45/19672. Mr. Miller explained that these were the same differences that he had previously discussed, that is, that there is a different degree of manual processing for the nonautomated category, and also, that that category contained mail up to 13 ounces, whereas the automated category was limited to 3.3 ounces. Mr. Miller did have to concede that, while he had previously criticized Prescott's first methodology because it compared an actual CRA category, presort nonautomated, and the combined categories of basic, three digit and five digit presort automated, Prescott's second methodology compares the automation presort to nonautomation presort. Tr. 45/19747. So that previously leveled criticism, even if it were valid, is inapplicable to this methodology. And Mr. Miller also had to concede that the inclusion of three and five digit sorts in the nonautomation presort level actually made that rate category less costly than it would be if, like the basic automation presort category, it did not contain three and five digit sorts. *Id.* at 19748. The presence of the higher degree of sortation in the nonautomation category tends to obscure the value of nonautomation compatibility because there is a comparison of a more highly presorted rate category with a less presorted rate category. And Mr. Miller conceded that. *Id.* at 19750.

Mr. Miller concludes his rebuttal as follows:

"A more appropriate approach would have been to determine a benchmark cost for the mail most likely to

convert to PC postage and then estimate the postal mail processing cost avoidance as a result of such conversion. Witness Prescott has not completed such an analysis. As a result, he has improperly estimated the PC postage worksharing related savings.”

And yet Mr. Miller conceded that even the Postal Service probably did not have all the data that was necessary to do it the way he thought it should be done, even if they were to do it. Tr. 45/19672-3, 19751-4.

The end result of all this is that, while the Postal Service has taken great pains to point out every flaw in the methodologies employed by witness Prescott to try to estimate the PC postage savings the Postal Service has declined itself to calculate the mail processing costs of PC postage; has not calculated the mail processing costs of the type of mail that converts to PC postage; and has no intention of helping out on this because it has no interest in helping justify a lower rate. Mr. Prescott’s estimations are a reasonable proxy for the actual savings. Prescott’s methodologies, which employ data the Postal Service did make available in this proceeding are reasonable, particularly in light of the Postal Service’s response to E-Stamps interrogatory 24-2 to witness Miller, wherein Mr. Miller outlined the enormously expensive, time consuming and difficult task of assembling even part of the information that E-Stamp requested in order to make a more precise estimate of PC postage savings. Tr. 45/19752-3.

While witness Miller testified that PC postage products produce little or no savings to the Postal service, he either had to agree with or state that he did not know the answer to whether the following list of cost savings and revenue generation resulted from PC postage:

- a. Savings due to reduction of fraud.
- b. Fewer return pieces due to non-deliverable addresses.
- c. Additional postal revenues from new business.
- d. Revenues from the sale of licensing of AMS CDs, at a cost of \$6.67 per customer two to three times a year.
- e. The sale of licenses to vendors at a cost of \$16,000.
- f. A commission of \$30.00 per new customer signed up through a post office.
- g. The costs avoided from the reduction in sales of regular postage stamps by window clerks. (45/19756-9).

Incredibly, Mr. Miller said he doubted there would be any increase in cost to the Postal Service if Open System PC postage products did not perform address cleansing, did not create delivery point Postnet bar codes, and did not imprint FIM marks on their envelopes. Tr. 45/19759-60. He was willing to concede a savings from reduced stamp sales and distribution because of the increased usage of PC postage products. And he admitted that neither he nor any other Postal Service witness had rebutted Stamps.com witness Heselton's testimony that the Postal Service enjoyed cost reductions of 1.14 cents per piece due to the address cleansing feature of PC postage. Tr. 45/19891. And he had to concede that, as he himself testified, PC postage letter addresses will be read by the MLOCR-ISS and will not have to be RCR processed, so obviously Mr. Miller's contention that there is no difference between PC postage products and any other machine printed address is simply wrong on that score alone. Tr. 45/19893-4.

**3. USPS Has Failed To Rebut The Stamps.com Claims Of PC Postage Savings.**

Stamps.com has proposed yet a third alternative means of measuring the cost savings from PC postage products by comparing them to the cost savings for Qualified Business Reply Mail (QBRM). Those savings are now estimated to range from a low of 2.6 cents to a high of 3.79 cents per piece, using PRC methodology, and depending on which of the numerous USPS changes one selects. Neither witness Miller nor any other Postal Service witness has any serious rebuttal to the existence of such cost savings nor to their applicability to PC postage letter mail products. Again, we would point out that these are not the total savings for PC postage mail. In the case of the Stamps.com methodology, the savings are limited to the mail processing cost savings; and, in Mr. Prescott's two methodologies, the savings are limited, in the first instance, to mail processing cost savings and in the second instance to mail processing and delivery unit cost savings. As Stamps.com witness Heselton has made clear in the record, there are other savings that accrue to the Postal Service from PC postage products, such as reductions in the transaction costs of stamp sales, and in the reduction in the forwarding and return costs for undeliverable as addressed mail.

**B. USPS Witness Staisey's Criticisms Of The PC Postage Products Surveys Conducted By Mr. Boggs And Ms. Lawton Are Tendentious, Greatly Exaggerated, And Demanding Of A Perfection Almost Wholly Unknown, Either Theoretically, Or In Practice.**

**1. The Boggs Survey Is A Reliable Indicator Of PC Postage Interest.**

In the exaggeration that characterizes all of Ms. Staisey's testimony, she claims Mr. Boggs' failure to provide a comprehensive concepts statement about PC postage invalidates the responses. Tr. 45/19937. She states that it is "invalid to use indicators of interest to conclude on a size of the market." Tr. 45/19937. That is her opinion. While witness Staisey readily agreed that additional information about the cost and burdens of PC postage would tend to lower interest levels that were expressed, she was unable to agree that additional information about the benefits and advantages would have raised the interest level. *Id.* at 19937-8. This is a perfect expression of witness Staisey's own bias about judging the surveys. And, finally, she did have to concede that one could conclude that there was a level of interest expressed in the generic description of PC postage, although not agreeing what conclusions can be drawn from that expression of interest. *Id.*

Ms. Staisey claims the response rate to the Boggs survey was so low that it does not allow for conclusions about the small business population. Tr. 45/19933. Again, that is merely her opinion. Other than her own opinion, Ms. Staisey offers no corroboration from other authority that her judgment is correct about what is and is not a low response rate. When asked just how big a response rate she would require, she responded that "the study doesn't provide information that would be necessary to provide an answer to that." Tr. 45/19939. Yet she was able categorically to state that 16.5 percent was not big enough.

Ms. Staisey also asserts that Mr. Boggs inappropriately relied on his expert opinion and professional judgment to arrive at conclusions about PC postage and its implications for the small business sector. *Id.* at 19934. Her defense of her attack on Mr. Boggs' use of his professional opinion and judgments was to point to the fact that Mr. Boggs predictions for the current year turned out to be incorrect. *Id.* at 19940. But, Ms. Staisey had to concede that when she filed her testimony she was unaware what the actual results were and, therefore, she cannot justify her attack on Mr. Boggs' use of his professional judgment based on facts she was unaware of at the time she leveled her criticism. *Id.* at 19941.

Ms. Staisey agreed that she had no question about Mr. Boggs professional credentials or his competence. *Id.* at 19943. When asked whether this was not just a simple case of her competence and professional opinion versus his competence and his professional opinion, she responded that, no, she thought there were some facts at issue here. *Id.* at 19943. However, when challenged to state what "facts" there were that were at issue, she was unable to come up with any other than the fact that a survey was taken and that there was a 16.5 percent response. Ms. Staisey had to concede that it was not a "fact" that 16.5 percent was inadequate, but rather it was her professional judgment. *Id.* at 19943-5.

As the numbers of businesses selling online increase, the number interested in fulfilling orders through online solutions, including PC postage, will also naturally increase. As Mr. Boggs inferred, these small firms will be a natural constituency for online fulfillment capabilities where PC postage can play a part.

## **2. The Lawton Survey Meets All Professional Tests.**

As exaggerated as Ms. Staisey's criticisms of Mr. Boggs are, and as much as it is really a question of her expert opinion versus Mr. Boggs' expert opinion, her critique of Stamps.com witness Lawton's survey fully exposes Ms. Staisey's own bias as an evaluator of survey methodologies. Her defense of her critique of Ms. Lawton's survey, (Tr. 45/19973-20003), confounds the experience of anyone ever involved in a survey. Ms. Staisey's bias is well established: she is the "client relationship" partner with the Postal Service for her employer, PriceWaterhouse Coopers. In that capacity she does not have the claim to independence enjoyed by witnesses Boggs and Lawton, whose competence and judgment she has attacked in this proceeding. Tr. 45/20003.

### **C. USPS Witness Gordon's Claims About The Difficulty Of Implementing a PC Postage Discount Are Exaggerated And Irrelevant.**

Mr. Gordon goes on at length about the difficulties of implementing a PC postage discount. He talks about how long it would take, the technical difficulties, and the education campaign that would have to take place, yet he was unable to point to any significant efforts or steps that have taken place so far to educate postal personnel. The examples he gave were that posters were put up in postal facilities, showing what an IBI would look like. There was a piece in the Postal Bulletin, which possibly an employee might read. Tr. 45/20025. Mr. Gordon was frank to admit that not much had been done because the volume did not justify the effort. *Id.* When asked how many postal employees were responsible for educating the hundreds of thousands of postal employees who need to understand PC postage, he said that, in addition to himself, he had one individual who worked on communications efforts generally. *Id.* He admitted

that he had no budget to promote PC postage. *Id.* at 20026. He admitted that he had no budget for educating employees on PC postage and that he could not even speculate on how many times a supervisor might “have elected to discuss this subject in a stand up talk.” *Id.*

Mr. Gordon admitted that his office was the author of Postal Bulletin 20004, in which PC postage products were discussed. That Bulletin states the following:

“The Soho market is computer-savvy and demands convenience. If we can make it easier for them to get postage, using the convenience of their personal computers, they will be more likely to use the Postal Service than one of our competitors for their delivery needs.” (page 9)

“The easier PC Postage is to use, the more customers are likely to use it. The more they use it, the more revenue we gain. It is a good business proposition for all parties.” (page 9).

“The Postal Service receives the money from the postage and from new business, as customers and small and home based businesses find the new service more convenient than shipping with the competition.” (page 11)

These claims about PC postage, cost savings to the Postal Service, new business for the Postal Service, and convenience for customers, are all claims about PC postage products for which Mr. Gordon was responsible. Mr. Gordon is the product manager of PC postage. And, notably, Mr. Gordon did not testify that he opposed a discount; he said that was up to the rate folks. (45/20031).

## **CONCLUSION**

PC postage products deserve a discount because they avoid Postal Service mail processing and delivery costs of more than 4 cents per piece compared to the costs of the letter mail that would have been tendered to the Postal Service in the absence of



PC postage; because the use by customers of PC postage products has been shown to increase the amount of business those customers do with the Postal Service, particularly Express and Priority Mail; and because a discount would share the benefits of automation of mail with small businesses and household users, a benefit heretofore denied to them.

## **PROPOSED FINDINGS AND CONCLUSIONS**

1. The Commission finds that the Open System PC postage technology produces automation compatible mail which yields substantial savings to the Postal Service in mail processing and delivery costs.

2. The Commission finds that PC postage products substantially improve postal addressing, substantially reduce the Postal Service's cost of selling stamps through retail outlets, and save on return and forwarding costs of first-class letter mail because of the improved addressing.

3. The Commission finds that Open System PC postage First-Class Letter Mail saves more than four cents per piece because it is fully automation compatible.

4. The Commission finds it is reasonable to compare non-presorted bulk metered mail to basic automation presort mail for the purpose of calculating the cost avoided because of automation compatibility; and further that it is reasonable to calculate the cost avoidance from presorting by comparing basic automation compatible mail to non-presorted bulk metered mail.

5. The Commission finds that the two alternative methodologies employed by E-Stamp witness Prescott to calculate the cost avoidance of Open System first-class letters are reasonable and provide a reasonable proxy of the avoided costs.

6. The Commission finds that Open System PC postage first-class letter mail provides approximately the same amount of cost savings in mail processing costs as does Qualified Business Reply Mail (QBRM).

7. The Commission finds that a four cent discount for Open System PC first-class letters is supported by the evidence and consistent with the rate criteria of the Act.

8. The Commission finds that, because the Postal Service did not assume any cost savings from PC postage products in its projection of First-Class letter costs, and because a four cent discount for PC postage products is less than the amount of cost avoidance from PC postage products, a four cent discount would have either a revenue neutral or beneficial effect on the overall net revenue of the Postal Service in the test year.

9. The Commission finds that, in combination, the surveys conducted by E-Stamp and Stamps.com provide a reasonable estimate of the utilization of PC postage products by the small office, home office, and household users of mail, and therefore those surveys provide a reasonable estimate of the consequences, in the test year, of a discount.

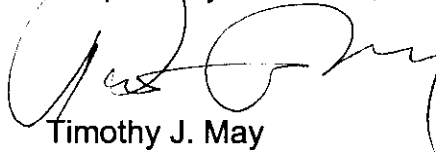
10. The Commission finds that the primary beneficiaries of PC postage products would be small volume business users of first-class mail, small home office users of first-class mail, and householders who have their own personal computers and printers.

11. The Commission finds that, in addition to mail processing and delivery cost savings, Open System PC postage products provide the following benefits for the Postal Service:

- savings due to reduction of fraud;
- savings due to fewer pieces requiring and forwarding because of invalid or nondeliverable addresses;
- licensing fees received from PC postage customers;
- proceeds from sales of licenses to vendors;
- commissions received for new PC postage customers acquired through retail postal outlets; and
- savings from the reduction in sales of regular postage stamps by window clerks;

12. The Commission finds that the usage of PC postage products leads to increased usage of other postal services and products, particularly express mail and priority mail.

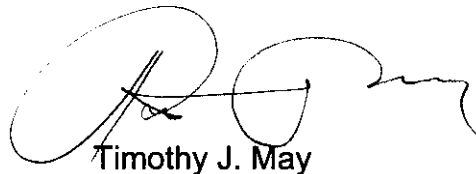
Respectfully submitted,



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#### CERTIFICATE OF SERVICE

I hereby certify that I have caused this Notice to be served upon all participants in this proceeding in accordance with Section 12 of the rules of practice this thirteenth day of September, 2000.



Timothy J. May

Date: September 13, 2000